



DATE: December 10, 2004

MEMO TO: ALL STATE AGENCY DIRECTORS, CONTRACTS MANAGERS,  
EMPLOYEE ORGANIZATIONS, AND MEMBERS OF THE  
GOVERNOR'S CABINET

SUBJECT: Justification of Cost-Savings Based Contracts

The purpose of this memorandum is to provide state agencies with the annual update of the California Consumer Price Index (CPI) information required by Title 2, California Code of Regulations (2CCR) Section 547.71(2). The adjusted figure may be required in justifying cost-savings based contracts under the provisions of Government Code Section 19130(a).

2CCR Section 547.71 provides that savings generated through cost-savings based personal services contracting must justify the size and duration of the contracting agreement. To do so, these contracts are required to meet one of the following criteria:

1. Achieve a savings of 10% or more compared to the cost of performing the same function within the civil service over the duration of the contract; or
2. Achieve a savings of at least \$50,000, in terms of 1988 dollars, per year compared to the cost of performing the same function within the civil service over the duration of the contract, provided the savings equals at least 5% of the comparable civil service cost.

These savings need not be attained during each year of a multiyear contract. The savings requirements may be met on an overall rather than a year by year basis.

Based on changes in the California CPI as reported by the Department of Industrial Relations, effective August 2004, the adjusted figure for savings per year in 1988 dollars is at least \$80,100.

Questions regarding this memorandum may be directed to Marianne Hardin at (916) 651-7140 or TDD (916) 653-1498.

Joan Allison, Acting Chief  
Policy Division